The Exchange

A MAGAZINE OF THE FINANCIAL COMMUNITY 10c A COPY

June, 1943

SYNTHETIC RUBBER Becomes Big BUSINESS!

Page 8

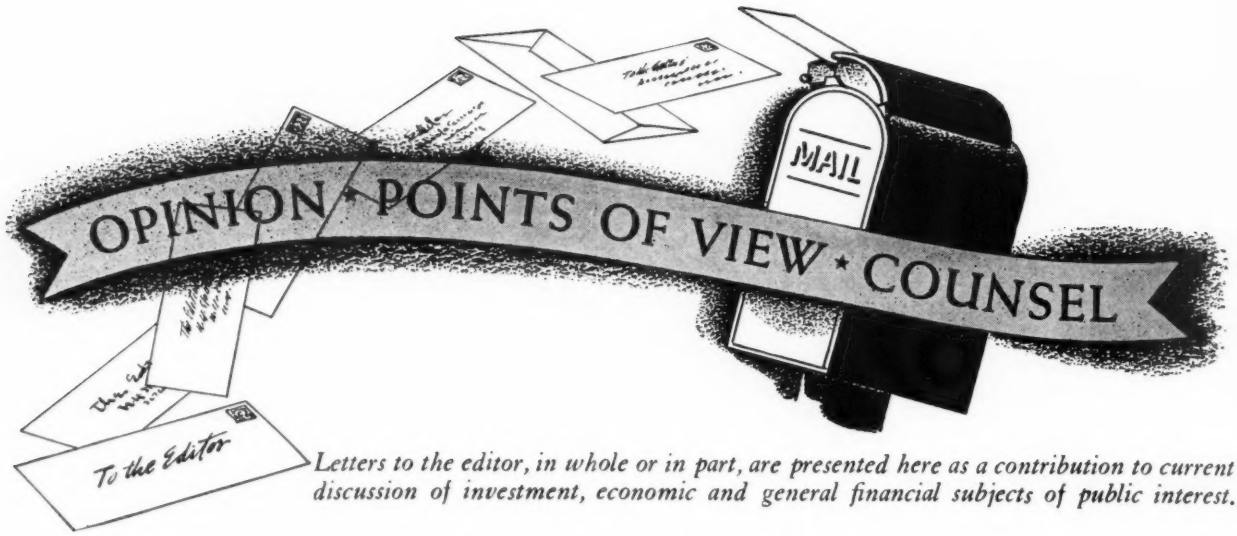
★

PETROLEUM An Instrument For Trade Revival

Page 3

★

"It's Facts They Demand!" . . . Speaking of Investors—*Page 5*



Letters to the editor, in whole or in part, are presented here as a contribution to current discussion of investment, economic and general financial subjects of public interest.

CHICAGO, ILL.

Taking a page from your own sermon of May, referring to the article which sought to justify the impression that stock market participants act with more deliberation than they did in markets of the 1920's, I'd like to apply your argument in another way. Inasmuch as the Dow, Jones industrial price average advanced from 92.92 in the Spring of 1942 to about 138 at the time of this writing *(May 25)*, the advance in slightly more than a year of 45 points might be considered enough for the period—in a "deliberate" market. What do you think?

S. Y. T.

WEST CHESTER, PA.

. . . The advice I received *(from an investment counsellor)* puzzles me, in view of what has happened in the market since it was received. Briefly, I informed him that a fund of which I am a Trustee—a small fund, the income to be used in charities—had been the recipient of a bequest including 2 Chicago, Rock Island & Pacific 4½ per cent bonds, A. 1952, and 2 Seaboard Air Line convertible 6 per cents of 1945, and what was his suggestion about them? Both railroads being in process of reorganization, my offhand thought was that all of the bonds might be held, as the Fund could do, to see how they would fare in rehabilitation proceedings. But the advice was to sell the Rock Island bonds as the market quotation "represented about all they would be worth under the plan," at the same time that the Seaboard bonds should be held. And in a few days, after the Rock Island bonds had been sold, the price moved from around 28 to above 33, while the Seaboard bonds stayed close to 28. Perhaps the advice was first-class but, as I stated before, I am puzzled about it in view of the price fluctuations in the Rock Island case. What do you think of the advice?

K. J. P.

EDITOR'S NOTE: When it comes to estimating probable values of bonds of reorganization railroads, more intimate study of traffic, scaled-down debt and interest charges and the like is involved than anyone besides a specialist in railroad finance can apply.

KANSAS CITY, MO.

THE EXCHANGE Magazine, as I have discovered after reading the issues since September, 1942, is excellent to provoke thought . . . and suggest ideas to investors for research. Frankly, I'd like to find in it some direct suggestions about buying or selling, but, in the absence of specific "points" on individual stocks and bonds, I still find helps in published facts about groups of securities on the Exchange. If you consider this a *hint*, please make the most of it.

J. E. S.

NEW YORK CITY

A household fixture under a trade name entirely unfamiliar to me caught my eye in a shop recently. I bought it and found it altogether satisfactory; so much so, in fact, that I looked up the manufacturing company and found that its stock had been listed on the Stock Exchange within the last few months. That "gadget" stands in active competition with another which has been marketed by a great corporation for 20 years or longer. From its performance in my house, I would think the new one would meet with a growing demand. It strikes me that I have come upon a company heretofore not widely known that will become more prominent—and profitable—as time goes on; and the thought is natural that other relatively young corporations are rising in consumer estimation because of good products in these war times.

A. L. S.

MORRISTOWN, N. J.

It isn't earnings, for calculations to be based on first quarter results indicate that many corporations are going to have less net this year than last year. It probably isn't after-war prospects, for these are cloudy, and what may be earned on expanded productive facilities is anyone's guess. So, as it seems to me, the chief incentive for public purchases of common stocks as speculations remains centered in thoughts of inflation. Nobody knows what kind of inflation is gropingly being pondered, beyond the general phenomenon of merchandise price rises, but the word possesses—and is likely to continue possessing—an attraction which the stock ticker presumably reflects.

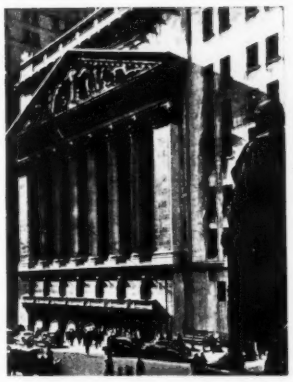
G. A. R., JR.

The Exchange

A MAGAZINE OF THE FINANCIAL COMMUNITY

VOLUME IV, NUMBER 6 . . . . JUNE, 1943

THE EXCHANGE is a monthly publication of the New York Stock Exchange. *Editorial Offices*, 11 Wall Street, New York, N. Y. Telephone HAnover 2-4200. Subscription price $1.00 a year



Memoranda for Current and Future War History

Industrial and Stock Market Developments Reveal Ways In Which Conflict Shapes the Form of Things to Come

PEARL HARBOR marks a date and a milestone in both the military history and the economic records of the United States. The final chapters of the former will be written and inscribed with "finis" when unconditional surrender is accepted by the enemy; but the story of economic developments which began to gather momentum on December 7, 1941, will remain for the distant future to round out.

Memoranda of the full tale of industry's relationship to the global war are being gathered from month to month, and a contribution to the archives is contained in this issue of THE EXCHANGE. The tremendous growth of facilities for making synthetic rubber, and a pre-view of the product's destiny, are discussed. Petroleum's significant part in the winning of the war and its expected essential role in the revival of world trade are reviewed, and, along with these realistic evidences of the virility of America's economy, a chart of price changes of common stocks listed on the New York Stock Exchange (see the next page) reveals the way in which a standard barometer of public sentiment has denoted the people's reaction to military progress.

The charted record discloses that, as United Nations' strength quickened on sea, land and in the air, the price front of stocks gained in strength. This is the demonstrated fact and the story can be carried back beyond the six months of the chart to the twelve months beginning with December, 1941. To be precise—

Course of a Year

The average price of all listed common stocks, gathered in 27 groups by industries, stood on December 1, 1942, at 22.97 which represented an increase of 4.4 per cent over the average when the year began. This gain was relatively small, of course, but the tendency is emphasized by the historic fact that, early in the United States' participation in the war, events for the arms of ourselves and our Allies, were far from favorable in several fighting areas. Then, too, the immediate shock of the Japanese attack had to be absorbed by the market and when the true price trend began to unfold itself, it was forced to work upward from a level lower than that prevailing prior to Pearl Harbor.

After December 1, 1942, the average price of the 27 groups displayed an unbroken series of increases as of the first of each month up to, and including, June 1, 1943. At this date the average of all common stocks stood at 30.33, an increase of 32 per cent over the price of December 1, 1942.

From May 1 to December 1 last year, when the production of war materials and the military might of the United States began to make themselves felt powerfully in the Southwest Pacific and in Africa, the average price increased by 21 per cent. The further and more substantial gains of the United Nations during the most recent six months were reflected in the 32 per cent additional advance.

The six months ended June 1, 1943, were accompanied by a greater *consistency* in the trend among the industrial groups than was in evidence in the preceding months.

During the 1942 period the average advance, while amounting to 4.4 per cent as noted, was marked by price changes of the individual industrial groups which ranged from a decline of 15.8 per cent to an increase of 74.1 per

cent. The common stocks of 6 groups, namely, the chemical, tobacco, steel, aviation, shipbuilding and operating, and the mining groups, actually declined in average prices.

In contrast, the average prices of *all* the individual groups increased from December, 1942, to June, 1943, the advances ranging between 15.5 per cent and 80.1 per cent.

This is not to infer, of course, that every stock in every group gained ground. Investor selectivity, which has been a notable feature of common stock dealings for several years, was much in evidence during the charted half-year. Some individual issues of practically every group retreated but the consensus remained heavily on the upside of prices.

Several of the groups which scored substantial average price gains in the six months ended June 1 lost ground during the 1942 period. At the same time, a number of groups which retreated or made only trifling price gains during the 1942 interval were found still to be lagging behind the general market during the six-months' period of this year, comprising the mining, steel, leather, shipbuilding and operating and chemical groups. They were "slow," but the average change of price of the individual stocks contained in them was on the plus side.

Some groups, naturally, exhibited a price performance more emphatic than did others, considering the 10 "strongest" groups. An average price advance of 80.1 per cent in the six months ended December 1, 1943, of public utility holding company stocks evidently reflected renewed investor and trader confidence in a previously sluggish category of listed equities. This showing topped all others among the 27 groups, but the rubber issues were close behind with an average advance of 75.9 per cent, and amusement stocks gained 78.5 per cent.

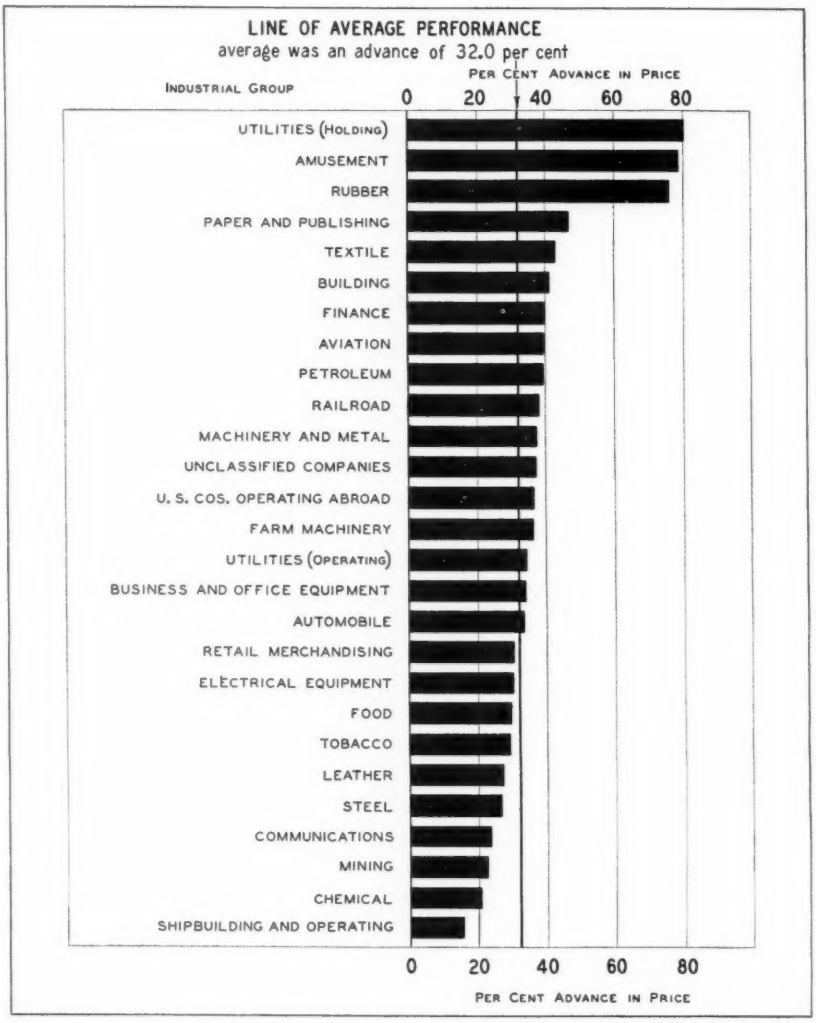
More publicized groups, like aviation and railroads, stood well down the list of the upper 10, with average gains of 39.4 per cent and 38 per cent, respectively. Stocks of the building industry, which might be considered as prime reflectors of post-war reconstruction hopes, advanced 40.7 per cent on the average, yet the electrical equipment issues, also to be rated among expected beneficiaries of after-war construction growth, improved in price only 30.2 per cent, average.

How much do efforts to discount "inflation" figure in common stock price changes? Being among the intangibles, such an influence is impossible to chart. But inflation thoughts may color the price reckoning, the while that war developments offer a parallel to prices in strong colors.

PRICE PERFORMANCE OF LISTED COMMON STOCKS

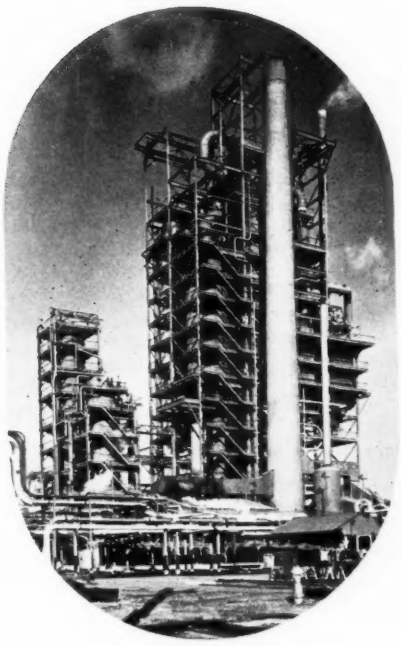
—By Industrial Groups—

DECEMBER 1, 1942 to JUNE 1, 1943



Petroleum . . . *AN INSTRUMENT FOR TRADE REVIVAL AFTER THE WAR*

Present Demands Are Being Met by Enlarged Industry, and Host of New Derivatives and Varied Products for Peace Are Coming Forward, But One Serious Lack Exists . . . New Crude Reserves!



By J. WILLIAM SMALLWOOD

PETROLEUM meant to the Indians a fluid to ease rheumatism—to our grandfathers it meant kerosene—and to our generation it has represented gasoline, chiefly; but, under war developments, these are now a few of its modern facets—

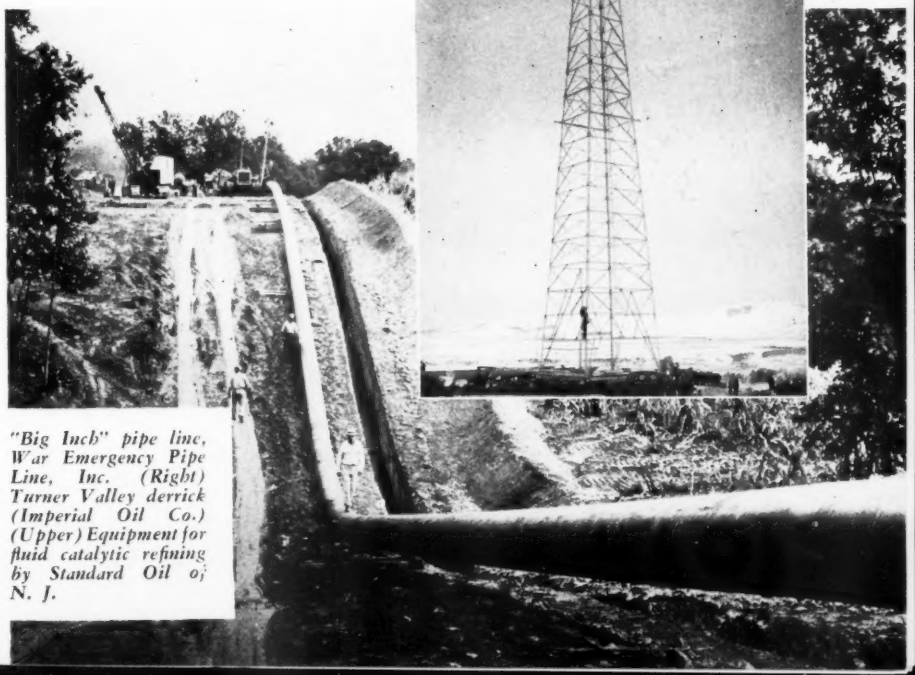
100-octane war-plane fuel . . . butadiene for synthetic rubber . . . phenol for plastics . . . alcohols . . . acetates for textiles . . . aldehydes . . . aromatics . . . glycerine, and so on.

In the refining branch, war necessity has speeded the expansion of petroleum chemistry until the oil industry has become a significant factor in the broad field of commercial chemistry. Considering post-war probabilities, investors in petroleum company securities need to pursue their inquiries far beyond the phenomena attached to the motor car, the airplane and the household oil-burning furnace.

And, withal, there are problems to ponder within the industry.

It has been apparent for some time that, instead of being faced with shrinking markets as a result of rationing, the industry's principal problems are those of producing sufficient quantities of crude oil and products to meet all essential demands and the transportation of these products to the points needed. To these ends, refinery yields have been altered, old pipe lines taken up and relaid and large new lines constructed and others projected, tanker construction greatly expanded, many new plants for the production of aviation gasoline, synthetic rubber, toluene and butadiene built and building, thousands of wells drilled, and numerous other projects undertaken, the details of which are military secrets.

The goals set for the industry in prac-



"Big Inch" pipe line, War Emergency Pipe Line, Inc. (Right) Turner Valley derrick (Imperial Oil Co.) (Upper) Equipment for fluid catalytic refining by Standard Oil of N. J.

tically all these undertakings are being rapidly attained, but there is one problem which is not yielding to time. That is the discovery of sufficient new reserves of crude oil to replace supplies being withdrawn so that the industry will be able to meet future requirements without departing from efficient production practices.

Since 1938, discoveries of new oil have not equalled withdrawals in any single year. Additions made to the estimated crude oil reserves in the United States, in this period, were due principally to extensions made to fields discovered in prior years and to revisions of estimates of crude oil reserves in known fields. This is clearly shown in the accompanying table compiled from figures of the American Petroleum Institute.

Buying Oil Properties

The growing awareness that discoveries of new oil fields in this country have failed to keep pace with the demand of the past few years has been reflected recently in frequent announcements of purchases of proven producing properties in this country by a number of large companies, and the increasing attention being paid to foreign fields despite the difficulties of operating in other countries.

Numerous industry spokesmen and some government authorities have voiced concern about the declining discovery rate and have requested that an increase in the price of crude oil be granted in order to stimulate the search for new fields. While any price increase would improve the industry's earnings position, an equally important fact from the standpoint of the owner of oil securities is that, whether or not prices are immediately advanced, the actual value of existing reserves has been considerably enhanced.

Without minimizing the incalculable economic losses resulting from the war, it could be pointed out that the oil industry will obtain certain benefits from its wartime experience and developments. Probably a decade of normal progress in the fields of petroleum chemistry and refining technology is being telescoped into a few years and the exigencies of war are also hastening improvements in the industry's transportation and distribution systems, which could exert an important influence on post-war operations and earnings.

Hydrocarbons and the Future

The imagination is stirred when petroleum's part in trade revival is examined in the light of new products. While it has long been known that the hydrocarbons which constitute petroleum were a chemical storehouse of vast potentialities, it was not until comparatively recently that the industry developed processes for the commercial separation and synthesis of these hydrocarbon entities.

Because of their importance to the war effort, the aviation gasoline base stocks, and toluene and butadiene—basic ingredients respectively of explosives and synthetic rubber—have received the greatest publicity. There are, however, many other hydrocarbons from which an infinite number of synthetic products can be built up, such as alcohols, aldehydes, aromatics, dyes, resins, solvents, ammonia, glycerine, sulphuric acid, acetates and anti-oxidants.

The impetus given to the development of catalytic and complementary refining processes by the war may have a more far-reaching effect than any other event in the recent history of the oil industry. In addition to contributing importantly to the enhancement of the chemical character of the petroleum industry by providing larger quantities of the lighter and more valuable petroleum hydrocarbons, catalytic cracking affords greater flexibility in refining operations and promises a partial solution of one of the industry's most perplexing problems.

Hills and Valleys

Consumption of gasoline reaches a seasonal peak in the Summer months, while fuel oil demand is heaviest during the Winter. These variations do

(continued on page 16)

EARNINGS AND "GAS" USE

	Net Income of 32 Oil Companies	*Domestic Motor Fuel Consumption*
1942	$446,364,144	*
1941	578,822,387	660,000,000
1940	412,157,371	589,424,000
1939	356,154,046	555,509,000
1938	341,083,662	523,003,000
1937	629,144,287	519,352,000
1936	458,820,512	481,606,000
1935	287,719,407	434,810,000
1934	182,341,148	410,339,000
1933	102,967,764	380,494,000
1932	82,144,076	377,791,000
1931	(d) 73,445,526	407,843,000
1930	335,979,116	397,69,0000
1929	638,158,233	382,878,000

(d) Deficit
* Not available

ESTIMATED PROVED OIL RESERVES IN THE UNITED STATES WITH ADDITIONS AND WITHDRAWALS 1937-1942 (FIGURES IN BARRELS)

	—Additions to Reserves— Through Revisions of Previous Estimates and Extensions to Known Fields	*Through New Pools Discovered During Year*	*Production During Year*	*Estimated Proved Reserves of End of Year*
1942	1,618,925,000	260,051,000	1,385,479,000	20,082,393,000
1941	1,538,989,000	429,974,000	1,404,182,000	19,589,296,000
1940	1,607,012,000	286,338,000	1,351,847,000	19,024,515,000
1939	2,058,455,000	340,667,000	1,264,256,000	18,483,012,000
1938	2,243,571,000	810,493,000	1,213,186,000	17,348,146,000
1937	2,792,790,000	928,742,000	1,277,664,000	15,507,268,000

IT'S *FACTS* THEY DEMAND!

By HENRI DE LA CHAPELLE,
Los Angeles

THE investor, seasoned in the school of hard knocks these past dozen years, has become more objective in his approach to securities, more inquiring, more discerning and more self-reliant. In a period not universally stamped by personal initiative and resourcefulness, he is truly committed to the philosophy of self-help. Above all else today, he wants—the facts!

If this be thought dogmatic, take a glance at some milestones of progress. Since the Civil War, the evolution of the investor and the market place has been marked by four great tides, each distinguished by its own peculiar and outstanding characteristics.

Those Old Times

The post-Civil War period from approximately 1870 well into the "gay 90's" is already legendary. A colorful epoch in the annals of finance, it bred such men as Drew, Gould, Vanderbilt and Fisk. They were the product of an age characterized by national reconstruction so remarkable in speed and scope that in a few short years a handful of shrewd and daring men were able to build vast fortunes. In those days the stock and bond list on the Exchange was small and those who speculated relatively few. It was a day, not of numbers but of Titans, and their tilting ground was the market place. Obviously, the little fellow in that day was at quite a disadvantage.

With the turn of the century and extending perhaps into 1914, came an interval of great industrial and corporate expansion, of consolidations, of mergers. This nation was rapidly reaching man's estate. The stock and bond list on the New York Stock Exchange was growing and there was likewise some expansion in the hitherto limited popular interest in securities. Those, however, who were regularly active as investors or traders were generally well versed in the art of give-and-take, knew how to look out for themselves in the market.

It remained for World War I, however, to popularize stocks and bonds in this country. The "war baby" boom of 1915-1917 kindled the first spark of enthusiasm in the American speculative consciousness. Then our entry into the war in 1918 launched the Liberty Loan campaigns that carried a new message into practically every town and hamlet in the nation. Almost overnight, where the investing public had been numbered in thousands, it was now being numbered in millions.

As the post-war credit inflation developed in the wake of the painful stagnation of 1921-1923, the mounting tide of industrial and financial prosperity developed a national stock-awareness. But the tremendous securities market following of the late 20's was unseasoned. Legions had entered where angels feared to tread, and 1929 was the aftermath. Thus ended our third and most spectacular evolution.

Step by Step

We are now well on our way to maturity in our fourth evolution that started with the depression of 1929-32. At first it was a period of disillusionment, of readjustment to reality. Then developed from approximately 1933 to 1937 a trek to "investment counsel" and "fund management" that, perhaps more than any other single expression, betokened the great and spontaneous urge on the part of investors to seek competent guidance and advice.

This, of course, was a step in the right direction but, unfortunately, the development had its limitations. Though many investment counsel firms have done and continue to do an outstanding job, there have been glaring deficiencies in the record (particularly throughout the period 1937-1941) of many "fund managers" and "management trusts." Moreover, Mr. Average Investor, who,

after all, accounts for by far the largest proportion of all transactions on the New York Stock Exchange, feels that with his limited capital he cannot afford the expense of counsel fees; and from an even more practical standpoint, he knows that his capital falls short of the "minimum value" considered practical by most investment counsel firms.

By-passing sources of facts and investment suggestions of a caliber too large for them, an ever-expanding army of investors, large and small, has engaged to acquire information and to manage their investments—themselves. To New York Stock Exchange member firms, a challenge has been offered, and it is being met with an increasing sense of responsibility and service.

Then and Now

In the middle 1920's when I first started in the brokerage business, the Statistical Department of most brokerage firms was an appendage—a financial library if you will—and the statistician was the librarian. Today the Statistical and/or Investment Research Departments of large brokerage concerns are vital and progressive forces in present-day investment, committed (with considerable self-interest, of course) to a policy of service and financial and economic enlightenment.

Huge sums are being expended each year—running in some cases close to or above six figures—but these outlays today are paying big dividends in goodwill, satisfied customers, and above all in the more effective and profitable management of personal capital.

I sometimes wonder, as I see the scores of investors who every day visit our Research Department, each one conciously or unconsciously seeking to preserve his life's savings, if they realize how great a contribution they make to the cause of free enterprise, when through judicious administration they are able to preserve and safeguard their capital or enlarge it?

Today, in the investment community there are no mysteries. To the merest tyro its machinery and activities are a book to be opened, just for the asking. On the proverbial silver platter the inquiring investor can be handed the short interest and the odd-lot figures (trade secrets of days gone by), the data on the buying and selling by Exchange members and firm partners, and the monthly SEC reports of "insider" transactions, showing in detail the security sales and purchases of officers and directors and holders of 10 per cent or more of a company's stock.

Exhaustive corporation reports containing much data not otherwise available and, filed with the New York Stock Exchange, can be seen there upon application. The SEC form 10K, open to public inspection at each of the 20 registered and 6 exempted Stock Exchanges throughout the country where a company's stock is listed, is virtually crammed with data as interesting to the business or professional man as an able secret service man's report to his superior—such as sales and advertising expenditures, bonus and profit sharing arrangements, the total remuneration of the three highest paid officers and directors or employees, the names and addresses of all persons owning more than 10 per cent of any class of equity securities and the security holdings of officers and directors.

Not Exactly an Open Sesame

There is no need to mention the wealth of statistical records, investment services and research facilities that houses vie with each other in placing at the disposal of the public. Today the public demands facts—and it gets them!

Now it's one thing to have the facts and quite another thing to be able to use them profitably. Balance sheet analysis and frequent availability of earnings reports, etc., are not *per se* the keys to profitable investment or speculation. Were it so, for example, the railroads and utilities that make public their earnings monthly would provide outstanding advantages in the matter of anticipating price trends—which from a practical standpoint, they do not; no more than do the facts concerning book values, market ratings, etc., that can for so many reasons prove dangerously misleading. That is why today, in addition to demanding the "facts," investors at large feel that in the proper interpretation of these facts their brokers can be of invaluable assistance.

Power in Facts

"Give me a lever long enough," once said Archimedes, "and a fulcrum strong enough, and single-handed I can move the world." By the same token the leverage and power of a few simple and common-sense ideas supported by the "facts" can work wonders in the way of uncommonly canny security selection.

I have in mind a client who in the Summer of 1942 had the deep-rooted conviction that if he purchased a cross-section of low-priced (but good quality) "peace" shares measuring up to these requirements—

1. Common stock the sole capitalization.
2. Market price below net quick assets per share.
3. Big book values.
4. Large Excess Profits Tax exemptions well above dividend payments—

he would have an unbeatable combination for certain and possibly large capital growth. So I had all the necessary material placed at his disposal, and after a three-week period of intensive study, he selected twelve common stocks that seemed best to fit his formula. Here are the "facts" he gathered—but given, for

(continued on page 14)

What About Stock Trading Opportunities?

Price Changes of 833 Listed Equities Show Recent Trend of Public Participation

IF the price of a stock advances from 3 to 5 the percentage gain is 66⅔ per cent and the holder may find reason to slap himself on the back—so long as the market's price tendency continues to head upward. A reflection of mathematics of this kind is to be found in the accompanying chart which depicts recent percentage changes of 833 common stocks listed on the New York Stock Exchange.

The graph covers practically two months of this Spring when a heavy volume in low-priced equities was attracting wide public attention. The largest gains from March 31 to May 29 —30 per cent or more—is heavily represented among issues selling under $10 a share. (The heavy black column on the right.) No lesson is intended by reference to it; the column merely presents the fact of the market situation during the period.

Weight of Interest

Of the stocks which advanced in price up to 20 per cent, the largest representation by far was among issues selling from $10 to $50 a share. Among these it is noticeable that the great majority advanced less than 10 per cent, and among those which declined (the two columns on the chart's left flank), the $10 to $50 stocks predominated in number.

The graph emphasizes the area in which price changes (percentagewise) were most pronounced. This was the low and medium priced area. The percentage gains of higher priced stocks, which were notable during wide price swings of the 1920's, were decidedly moderate this Spring. Stocks priced at $50 a share or higher figured little among the issues gaining 15 to 30 per cent in price, and none appeared in the category to rise more than 30 per cent.

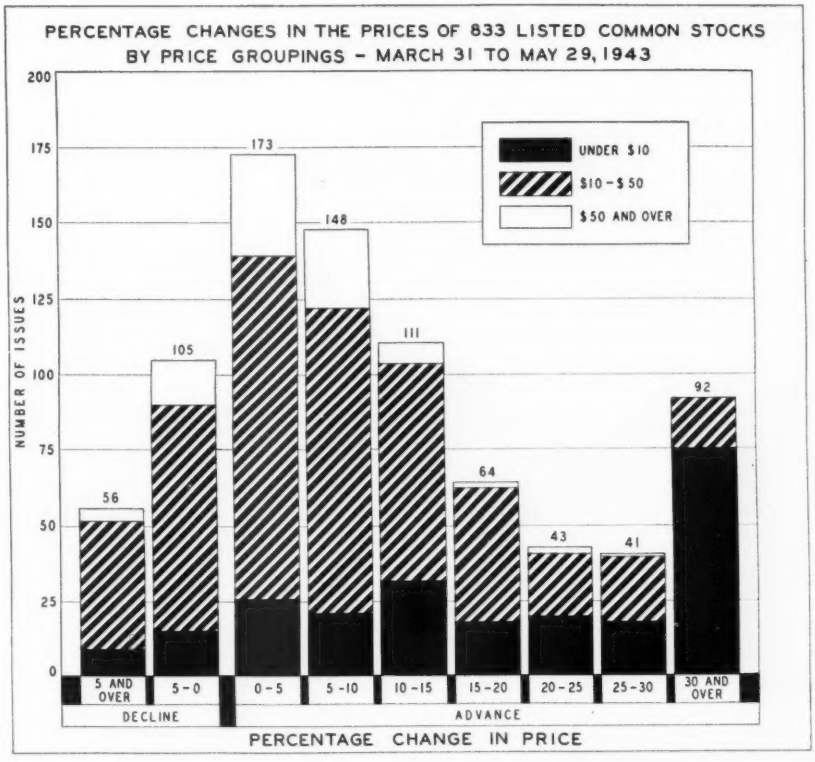
Considering the 833 stocks by industrial groupings, amusements had the largest median percentage advance—18.2 per cent. Railroads gained nearly 12 per cent, and retail merchandising stocks scored an even 12 per cent median percentage upturn. Oddly, in view of the great activity of this branch of industry, stocks of shipbuilding and ship operating corporations declined 4.3 per cent, the only group to lose ground pricewise for the two months.

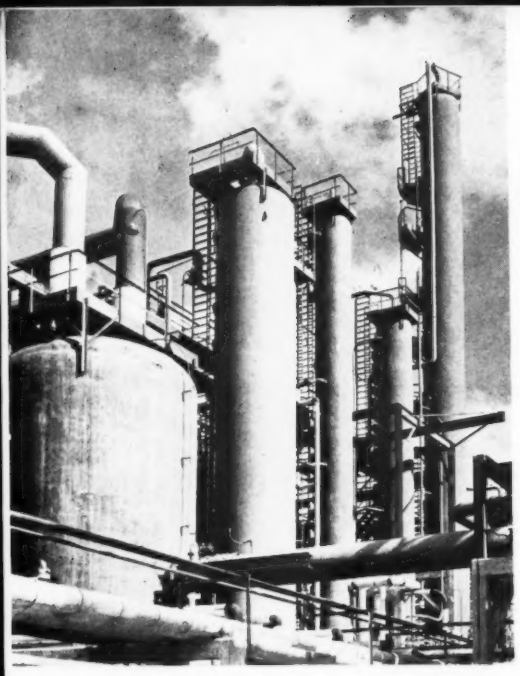
The median percentage price change for all stocks contained in 24 groups was 8 per cent on the up side.

Again, as in other studies of this kind, examination of the volume of transactions in listed stocks failed to show that a large turnover accompanied larger-than-average price changes. The table gives examples:

	Price Inc.	Vol. For Period
Amer. Car & F'd'y	$11⅛	125,200
Amer. T & T	11⅞	88,600
Case (J. I.)	12	17,200
Dresser Mfg.	8⅜	47,800
General Mills, Inc.	8½	8,400
du Pont	12¾	45,100
Morris (Philip) & Co.	9	21,200
N. Y. & Harlem	21	3,240
Sears, Roebuck	8½	69,000
Squibb (E. R.)	14½	1,100

Sloss-Sheffield recorded a gain of $18.50 on a turnover for the two months of 8,735 shares.





Synthetic Rubber Bec

The writer of this article has been an observer of synthetic rubber development "from the inside" since the new industry's early days. The statistics record facts current in the business, and the reasoning based upon them reflects the points of view of competent production and marketing technicians.

SYNTHETIC rubber plants which will ultimately supply us with some 850,000 long tons of synthetic rubber annually are sufficiently near completion for even the most conservative Americans to hail the job that has been done.

Here is an industrial miracle, a story which needs no adjectives to give it lustre. The bare facts alone make it one of the most fascinating stories of industrial progress ever written, even in a country which prides itself on "accomplishing the impossible." Yet, it is doubtful if more than 1 per cent of the people of this country realize even now what has been wrought.

In 1941 we produced a total of 12,000 tons of synthetic rubber. In 1943 Mr. William Jeffers, the Rubber Director, says we will produce 275,000 tons. By 1944 he estimates that we will turn out 750,000 tons. And this, from an industry which, as recently as January, 1942, was barely out of the test-tube stage!

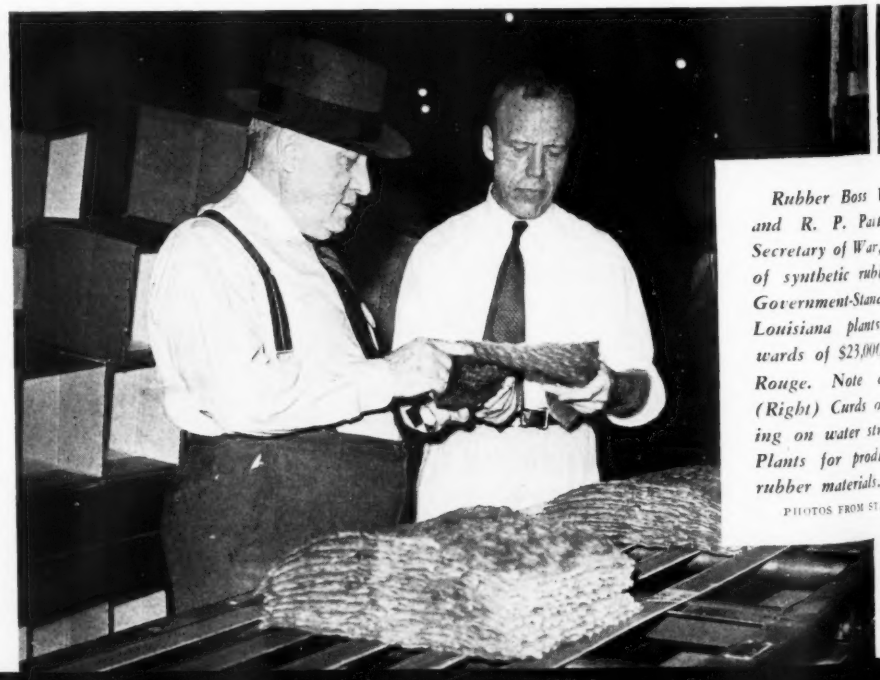
Today, the construction program in the United States and Canada has a rated capacity far greater than American consumption of natural rubber in any normal peacetime year. This productive capacity is divided among some 48 plants, of which 14 will produce Buna-S rubber, the backbone of the entire program. Of the remaining plants, three will produce Standard Oil's Butyl rubber and one will turn out DuPont's Neoprene. In addition, 23 other chemical plants will make butadiene and seven will turn out styrene, the raw materials for Buna-S.

Since its inception this new industry has been a sales manager's Utopia. Before it was built it had a ready market. In fact, it started off with more business than it could possibly handle. Its products required no advertising to secure international acceptance. It needed no dealer organization or channels of distribution. It had no competitors. Such conditions still prevail and will for the duration. But they obviously rest most insecurely upon the unnatural foundation stones of a wartime economy.

What will happen to America's giant new synthetic rubber industry when World War II ends? The answer to that question is not easily found in the dim light of present day knowledge. However, we do know certain facts and we must consider certain factors.

An Error to Avoid

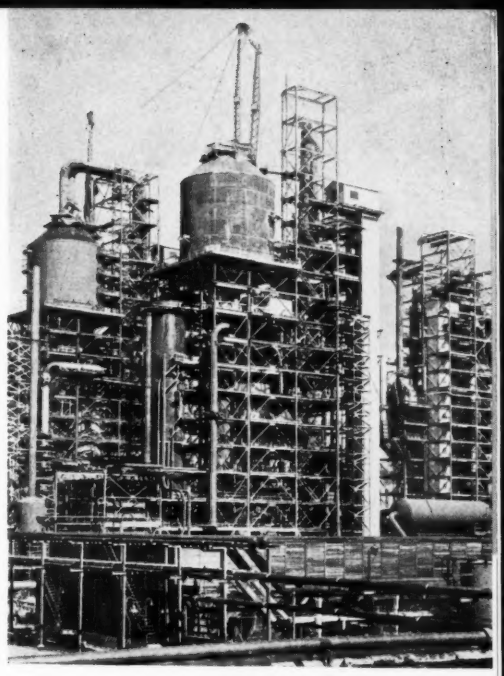
It is a mistake to predicate any discussion of post-war rubber upon pre-war natural rubber production and consumption statistics. In 1939, before World War II began to exert its huge and artificial demand, the world consumed some 900,000 long tons of natural rubber. Of that amount the United States took about 486,000 tons, or more than 50 per cent. The remaining tonnage went, in the order of their requirements, to the United Kingdom, Germany, France, Japan, Canada, Russia, Australia, Belgium, Scandinavia, Italy, the Netherlands, Czechoslovakia and Spain. Those were the principal consuming countries.



Rubber Boss W. M. and R. P. Paterson, Secretary of War, exami of synthetic rubber in Government-Standard Louisiana plants, costi wards of $23,000,000, Rouge. Note conveyo (Right) Curds of rubb ing on water stream. Plants for producing rubber materials.

PHOTOS FROM STANDARD

Becomes Big Business



But, two of the largest nations in the world, China and India, are missing from the list. Up to the present time, neither has consumed much rubber. The entire continent of South and Central America, where local production and imports of fabricated rubber products adequately covered relatively small needs, likewise is not on the list of large rubber consumers.

Backed-Up Market

Will all these countries (hence the entire world) need more rubber after this war than they did before? The answer seems to be an emphatic yes. One leading American rubber manufacturer recently estimated that post-war rubber demands will approximate 2,000,000 long tons of rubber a year! This more than doubles 1939's peacetime consumption. Why?

For one thing, the heavy rubber consumers, the United States and Great Britain, have dammed up behind wartime restrictions an enormous demand for rubber goods. It has been estimated that in the United States alone the war's end will release an immediate call for nearly 150,000,000 automobile and truck tires, or more than 1,000,000 tons of rubber. That is almost 100,000 tons more than the entire world consumed for *all* rubber products in 1939!

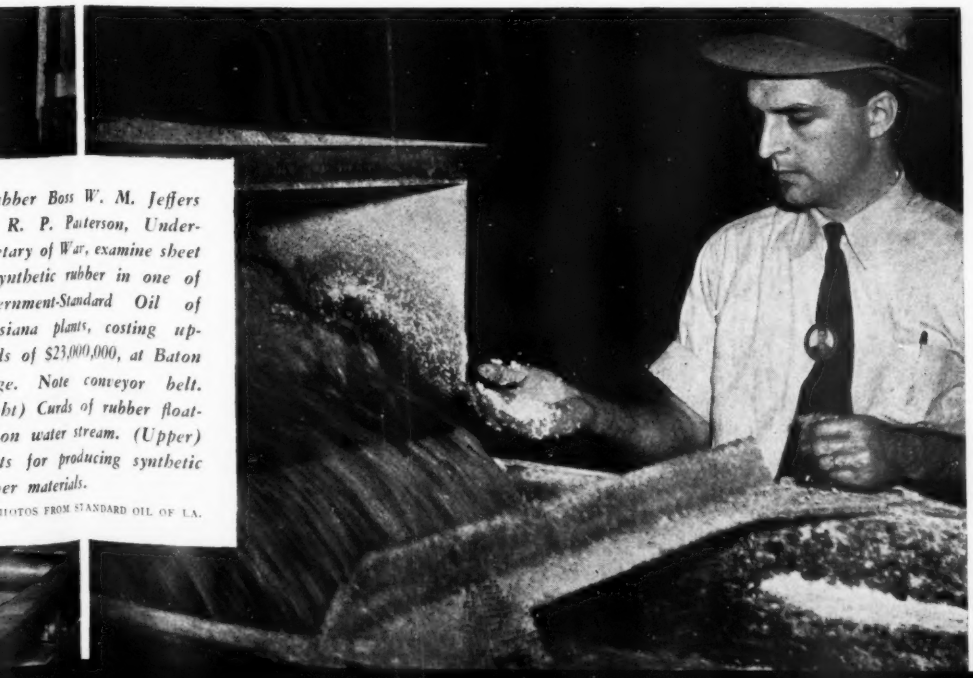
Add to this a freshly released demand for bicycle tires, rubber footwear, rubber toys, shower curtains, bathing caps and suits, dish mats, garden hose and a thousand and one other items which we used to enjoy in unlimited quantities.

In the proper pre-war proportion this same pent-up demand exists throughout the nations of the world. Furthermore, reconstruction of war-torn areas will require additional large quantities of rubber. So will maintenance and replacement of the world's vast new fleets of ships and planes. Finally, it is quite probable that the victorious Allied Nations will maintain large armed forces for some time after the war and they, too, must have rubber.

These future consumption factors are of the more obvious. There are others of equal interest and potentially as important. The gospel of the Four Freedoms carries with it at least the implication that today's so-called "Have-Not" nations will, in the post-war era, have the automobiles, refrigerators, radios and vacuum cleaners that help to make life more abundant.

If this implication was not apparent in the beginning it has since been advertised most graphically by the American soldier as he scoots about the world's distant corners in peeps and jeeps, or roars over a sleepy Bedouin village in a Flying Fortress, or constructs vast new camps and installations in strange lands whose nationals can see for themselves the wonders of American mechanical aids.

Think of China whose teeming millions since Lend-Lease began have seen more trucks and cars and planes and what these can accomplish for them than in the 40 years or so of automobile development. Certainly, in the proposed New World of international economic equality the Chinese and the Indians and the South and Central Americans and all the other "Have-Not" peoples will demand their share of autos and trucks and radios, etc. That means a vast new demand for rubber that cannot even be estimated today.



bber Boss W. M. Jeffers R. P. Patterson, Undertary of War, examine sheet ynthetic rubber in one of ernment-Standard Oil of siana plants, costing up- ls of $23,000,000, at Baton ge. Note conveyor belt. ht) Curds of rubber floaton water stream. (Upper) ts for producing synthetic er materials.

HOTOS FROM STANDARD OIL OF LA.

Suppose that the world does develop a post-war synthetic-natural rubber demand of 2,000,000 tons. Will the world's productive capacity be able to meet it? And how soon?

We know that by the end of 1944 we will have in the United States and Canada a synthetic rubber industry capable of producing 850,000 long tons of rubber a year. We know, too, that just before Pearl Harbor the Far East natural rubber plantations were supposed to have a potential unrestricted output of 1,500,000 tons. This would indicate a total world rubber production of 2,300,000 tons a year or considerably more than the estimated post-war world demand. But that figure for Far East production contains several interesting jokers.

Far East's Output

For one, Far East output of natural rubber never exceeded 1,350,000 tons a year. That figure was reached in 1940 when the war's greatly increased demands and higher prices enabled the International Rubber Regulating Committee (British and Dutch controlled) to ease the price-supporting restrictions on output.

It is known that the 1,500,000 ton figure could have been reached in 1942 or 1943 or later years. It is known, also, that before Pearl Harbor, by scientific methods, the plantation rubber industry had developed a type of rubber tree capable of *tripling* yields but, even if the Japanese had not interfered it is not likely that these new trees could have exercised any real influence upon production before 1948 and probably much later. Nevertheless, allowance must be made for such trees in any consideration of post-war production of natural rubber in the Far East.

Japan's seizure of the Far East has been a setback for the plantation rubber industry. But it is by no means as serious a blow as many people imagine. Before the Japanese moved in the plantations contained some 900,000,000 rubber trees. Their unrestricted output, it has been estimated, could have exceeded normal world demand by as much as 60 per cent. In other words, the Far East could have supplied the world's demands with rubber from only 360,000,000 trees.

Regarded in another light, this 60 per cent (540,000,000 trees) production surplus constituted the tree victims which could be sacrificed to war's destruction before the Far East's productive capacity fell below peace-time world demand.

Jap Possibilities

No one longer doubts the Japanese capacity for wanton destruction. But even they will have difficulty in destroying even a fraction of 540,000,000 trees, if forced to retreat. The trees can be cut down or girdled fatally, but that takes time and manpower which the Japanese can use to good advantage elsewhere. Jungle conditions make destruction of rubber trees, even by fire, difficult.

Someone has estimated that it would take a barrel of oil to burn down one tree and even though the Japanese control Far East oil fields, it is not likely that they will use that precious oil to burn down trees. Introduction of a destructive blight might appeal to the Japanese mind, but they will hesitate to take that step, too, so long as there is a possibility of their retaining the plantations. The jungle, creeping back into the untended plantations, probably is the greatest threat to the trees. The chances are that like the British and Dutch, the retreating Japanese will have the time and inclination to destroy only the plantation smokehouses, coagulating plants, factories, wharves and other facilities, all of which can be replaced in much less time than the seven years it takes to mature a rubber tree.

All this would indicate that the British and Dutch will return to their Far East rubber plantations to find only comparatively small war destruction and jungle damage. Nevertheless, it is believed that they will need at least one and a half or two years to resume full production.

In addition to the Far East, increased natural rubber production elsewhere through the world must be considered in a discussion of the post-war rubber situation. Today, tremendous efforts are reportedly being made to raise the Amazon Valley output from 20,000 tons a year to about 45,000 tons. Reports thus far are not encouraging. The drive is meeting all the predicted difficulties of inaccessibility of the trees, long distances, inadequate transportation facilities and scant manpower. Central America, Mexico and our own southwestern States are trying to increase production of rubber from guayule and cryptostegia bushes. Russia has sent us data on and samples of her "dandelion" rubber plants and certain Caribbean islands are experimenting with other rubber trees and bushes. But none of these efforts figures very importantly in America's wartime rubber program. They fade even more against mention of a 2,000,000 ton annual post-war rubber demand.

Burden on New Product

During that two-year lapse between the end of the war and resumption of large-scale Far East natural rubber production, the burden of supplying the world's rubber needs will rest squarely upon the synthetic rubber industry. But what then? Will the Far East pull out all the stops and turn out its potential 1,500,000 tons annually or even more with the new type trees? If so, what will the selling price be?

Those questions cannot be answered unequivocally today. But consideration of the factors raised in this discussion make it possible at least to approach the answers. The following facts help further to clarify the picture—

(continued on page 12)

THE GREAT RAILROAD BOND MIGRATION BACK TO THE ISSUING CARRIERS

MUCH railroad money is restless these days. It travels around the arc of a financial circle, under the impetus brought by large earnings and rapid cash accumulations which call for logical employment. Operating expenses, taxes, fixed charges, maintenance, improvements and so on absorb a high percentage of the gross receipts, and after ordinary accounts are provided for, the circle begins with a part of the remainder . . . the part used to reduce debt.

The retirement of railroad debt from earnings is proceeding this year at a higher rate than in the first half of 1942 and that carries its own significance. Profits earned through facilities created by old debt come into railroad treasuries and travel out again to retire the debt that helped make the earnings possible. Nobody knows the exact amount retired for the first six months; the scope of it can be estimated chiefly on the basis of *announced* purchases, calls and tenders, and these are running far ahead of the figures made known in the first half of last year.

In all of 1942 some $428,325,000 long-term debt, short-term loans, equipment obligations, etc., were paid off, according to statistics filed by the Bureau of Railway Economics in connection with I.C.C. hearings on proposed rate increases several months ago. The expectation is reasonable that this year's aggregate will be larger.

The Revenue Act of 1942 paved the way for accelerated debt reductions; first, by permitting bonds selling in the open market at a discount to be bought up by the issuers without considering the difference between purchase price and par as taxable profit; and, second, if the debtor was subject to excess profits taxes and it retired debt up to an amount equal to 25 per cent of its excess profits taxes, the debtor could get an immediate cash credit on its excess profits tax bill equal to 10 per cent of its excess profits taxes or to 40 per cent of its debt reduction, whichever was the lower. This provision applied to last year's rail profits; presumably, it will be retained in whatever changes the law may carry if revised this year, and the railroads are acting accordingly.

Large Transactions

The great bond migration away from public holders and back to the issuers is being marked by large transactions. The Atchison, Topeka & Santa Fe recently called for retirement on September 1 a total of $28,000,000 of its California-Arizona divisional 4½'s of 1962. The Great Northern purchased in the open market in 1942 $7,294,000 general mortgage G and H bonds, due in 1946, and acquired through tenders $13,933,000 additional. This road recently has issued a call to retire $18,000,000 additional of its Series G bonds on July 1.

Many Bonds Retired

The New York Central has called for payment on July 1, 1943 $25,955,000 of its secured sinking fund 3¾ per cent bonds, due April 1, 1946. The Louisville & Nashville has called for payment on July 1, 1943, $5,000,000 of its extended unified mortgage 3½'s, due January 1, 1950. The Boston & Albany (New York Central System) called $9,000,000 bonds, due July 1, 1942, for payment on January 1, 1942. The Gulf, Mobile & Ohio has announced its intention to reduce its debt and further consolidate its financial position.

These sizable operations, mentioned as exhibits of a wide-spread tendency, represent additional steps in the retirement of the specified issues which began some time ago.

The full sweep of the reduce-debt movement is difficult to visualize and impossible of reduction to exact statistics at any one moment. Millions of dollars of rail bonds are being quietly

"recaptured" by the issuers without publicity; and, in the absence of full information but with knowledge that the tide is running high, a great deal of speculative buying over the railroad "list" has occurred, the buyers hoping that by call or tender or regular purchases, the railroads will take bonds off their hands at a higher price.

The active rail bond market this year and last has been stimulated in part by such expectations, shrouded, as they are, by a kind of mystery.

The Way It Is Done

How do railroads reacquire their own bonds? From a superficial angle, some bond market observers, seeing a persistent demand and a generally firm price front on the New York Stock Exchange, may assume that the railroads are relying upon the listed market to supply them. Such is, however, far from the complete fact.

Bonds taken by interested carriers in the auction market supplement acquisitions made in over-the-counter market dealings, along with negotiated purchases from institutional and private holders, and a round amount received through tenders.

In 1941 the Santa Fe called $28,070,000 of its debenture 4's, due in 1948, and practically simultaneously it sold $20,000,000 of equipments as 1⅝'s. In 1942 it paid at maturity $4,949,000 Santa Fe, Prescott & Phoenix 5's, September 1, 1942, and called for payment $2,998,000 Rocky Mountain division 4's of January, 1965, and acquired $4,970,000 California-Arizona 4½'s through bankers.

The Southern Pacific sticks to "first maturity first"—some $70,000,000 near-term bonds have been bought in since the migration began to gather headway—and a similar procedure has been followed by the New York Central. The Great Northern's purchases have been lodged entirely in the general mortgage 4's of 1946.

The Santa Fe has been following a policy of centering its purchases on bonds of its most imminent maturity.

A notable example of acquisition through tenders has been supplied by the Baltimore and Ohio. (A tender is an offer by a holder to sell his security at a price which may or may not be accepted by the prospective purchaser who has made known his desire to acquire a certain security.) In 1942 this railroad bought of various issues some $29,275,000 par value at a cost of $12,298,000, receiving them, obviously, at a substantial discount from par. Other users of the tender method have been the Seaboard and the Pere Marquette.

Points of Approach

Referring to these examples of roads acquiring their own bonds, it is possible to see that two philosophies are at work in the field of reversed railroad finance. Money goes further when applied to issues selling at relatively low prices, irrespective of maturity dates—reducing the par of debt and interest charges rapidly. That is one philosophy. The other clings to the thesis that the more bonds bought of an issue nearing maturity, the less burdensome will the refunding or liquidation of the issue be when the time arrives for bondholders to get their invested money back.

A Moot Question

Some fine points for debate are naturally pivoted around the two methods. Which system imparts greater value to a railroad's credit position? Which method reveals the closer estimate of railroad earning power for the duration of the war and the immediate years of reconstruction? Which program reveals the closer thought applied to railroad operating costs—and profits—after traffic again heads toward a normal rate?

Such questions are far from being academic.

Synthetic Rubber Becomes Big Business

(continued from page 10)

1. Americans are determined that never again shall this nation be left at the mercy of a distant, foreign-controlled and war-vulnerable source of rubber, a material upon which our economy travels.

2. An investment of more than $500,000,000 in taxpayer and stockholder money is not to be blithely ignored or coolly written off the books of the post-war economy. When the war is over, 48 synthetic rubber plants still will tower above the ground because the new plants are being built to last. They are not small, nor simple, nor makeshift arrangements. On the contrary, they are huge intricate mazes of concrete and steel. They contain mile after mile of pipe, hundreds of delicate instruments, thousands of valves, compressors, coils and heat exchangers.

Wide Range of Uses

3. Synthetic rubbers can be used in numerous applications (gasoline hoses, fuel and oil lines, in autos and airplanes, fuel tanks, gaskets) where natural rubber cannot be used as effectively. In other specialty uses, synthetics do the job so much better than natural rubber that the premium price for synthetics is worth paying. In this connection, and in a major use, passenger auto tires made of Buna-S rubber today give 90 per cent of the service offered by natural rubber tires, and experts foresee further improvements.

4. Manufacturing costs of synthetic rubbers are below the estimates of a year ago and are being lowered still further as production volume and operating experience increases. Present day estimates place Buna-S normal selling prices as of the end of 1944 at a conservative 15-20 cents a pound. Today, the Rubber Reserve Corporation is actually selling Buna-S rubber at 18½ cents a pound for essential civilian production.

(continued on page 17)

New Listing

PENNSYLVANIA-CENTRAL AIRLINES CORPORATION

***Ticker Symbol:* PCA**

481,790
SHARES
Common Stock
Par $1

SPEED, epitomizing the public appeal of commercial aviation, has equal application to the new industry's growth. Pioneering has been blended into broad development so rapidly that no dividing line may be said to exist between the fledgling and the full-grown history of prominent companies.

Pennsylvania-Central Airlines Corporation, the common stock of which has been approved for early listing on the New York Stock Exchange, was operating through only 127 miles of air in 1927. Today its schedules span 3,500 miles, linking so many of America's great industrial localities that the corporation's slogan was designed without the need of tortuous thought . . . "The Airway to the Victory Cities!"

Many Cities, Many Miles

The original 127-mile route of 16 years ago extended between Pittsburgh and Cleveland. Its fleet of Douglas DC-3 airliners now serves more than 40 cities of 12 States in the East, South and Midwest. The general offices, moved from Pittsburgh to Washington in 1941, represent the only major industry to be found in the nation's capital city.

The company also leases two hangars at the Washington Airport which house the headquarters base, the organization including the management staff, supervisory staffs of all departments, principal operations control, maintenance and overhaul shops, etc. The company reports an investment of approximately $200,000 for the necessary design and construction work on these hangars and on the premises leased from the Federal Government.

Detailed information about the corporation's operations in 1942, and those current, is necessarily restricted because of all airlines' participation in the war. In 1941 the company carried 342,948 revenue passengers and operated 65,549,526 revenue passenger miles, representing increases of 62.97 per cent and 74.43 per cent, respectively, over the results in 1940. To fill its role in the war effort, PCA saw its personnel increase from 293 employes in 1938 to 2,000 in 1943.

School for Flyers

From PCA training schools hundreds of pilots, mechanics, technicians and navigators are going out to aid in wartime flying and the expansion of American aviation after the war ends. The company was one of the first to employ hostesses, and a school for their training is in operation.

War-time transition which caused military necessities to surmount civilian transportation requirements of normal years affected both passenger and goods haulage. Operating income was reported as $356,288 in 1942. Net income from all sources, after taxes, totaled $408,055. Ratio of current assets to current liabilities on December 31, 1942, was 2.7 to 1, as compared with 2.2 to 1 at the end the preceding year.

Vision Applied

Looking ahead to after-war aviation, the corporation recently announced a projected trans-Atlantic program, providing for "seadromes" at 800-mile intervals across the sea to Europe. This new pioneering will be shared in, according to published descriptions of the plan, by several of America's principal steel and shipbuilding organizations.

It's FACTS They Demand!

(continued from page 6)

sake of brevity and simplification, on an "average" basis:

Composite market price July 6, 1942, $14.00 a share; average net quick assets a share, $20.62; book value, $30.00; E. P. T. exemption, $2.36 a share *vs.* dividend payments in previous year approximately $1.40.

Was it an unbeatable formula? Well, practically, as events proved! As of their early June, 1943, highs, the composite price of these twelve stocks in each of which this client had invested $1,000, stood at $26.00—an average appreciation of almost 100 per cent in less than a year—and with the Dow Jones industrial average over the period up only about 33 per cent! As I survey the figures, I kick myself all over the proverbial lot for not having thought of the formula myself. It was all so simple and logical!

Speaking about ability to select values, it has been my privilege to service the account of a man who, in my estimation, has no peer as a judge of security bargains. He does all his own thinking, all his own research, and in the ten years I have handled his business, I have never once presumed to try to tell him what to do. In short, a "customers' broker's dream" come true!

Viewed from a Watch Tower

This investor rarely comes to our office during market hours, never looks at the tape. In a corner of our Research Department he is to be found late in the afternoon, a couple of times a week, doing his pick-and-shovel work. So-called with him. He simply buys bargains, —market "timing" isn't any problem—when they develop, irrespective of the general market.

Eloquent testimonial of his ability to dig up the facts and to use them is his account which on February 24, 1943, showed a more than 100 per cent appreciation in market value, as against February 24, 1942, without any capital additions during that period. The showing is all the more remarkable when it is realized that the equity involved runs into seven figures.

Congratulating him recently upon his splendid record, I asked him: "J——, seriously and for the record, tell me how you do it?"

Vigilant Reading

"Well," he said, "my approaches are not complicated. In fact they are very elementary. Naturally, I read most of the financial papers, magazines and statistical services, and considering the ground I cover something is bound to stand out every now and then and hit me in the face and I simply follow it up. Sometimes it's an exceptional earnings report, or an industry comment, or an item on book value, or on liquidating value. It's simply a matter of getting the idea or the inspiration through systematic reading and then checking on the facts.

"One thing I've noticed, though. There is usually, among several considerations, one outstanding element in a given situation, a 'determinant' one might say, that has caused me to buy or sell a security. Sometimes I'm more concious of it than others—but still, it's there."

Handing him my copy of his list of security holdings, which included from 80 to 100 different issues, I said, "I am particularly interested in your 'determinant factor' angle, and in way of illustration, won't you pick out a few of these securities and tell me what was the greatest, single, motivating influence behind their purchase?"

"All right, then: That block of 'A' stock (liquor) that you see there, we bought at $10.00 a share (now $35.00), was then earning over 25 per cent of its market price and had a book value of $35.00 a share, as well as net quick assets of $22.00 a share.

"On that block of 'B' stock (railroad holding company) bought around $2.00 to $3.00 (currently $11.00), the railroad company's stock that it held (share for share) was selling around $5.50 to $6.00 and earning more than the price for which it was selling. On the publishing company preferred stock, for example, that I bought around $12.50 (now $36.00) I figured at the time that it had 50 per cent more working capital than its market price after deducting all prior liabilities. Then there is this investment trust preferred, bought around $50.00 to $54.00 (now $78.00) the liquidating value of which at the time was estimated at over $100.00 a share.

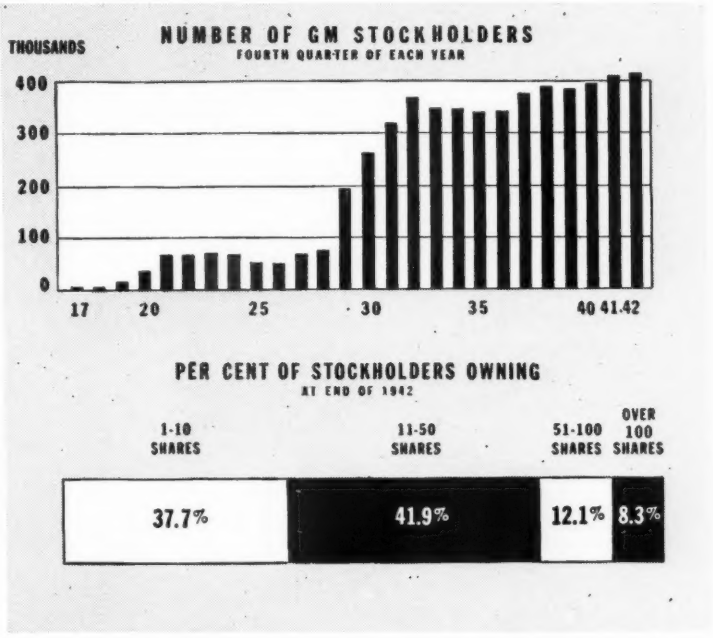
"This department store stock, bought around $5.00 (now $13.00), was then selling, I figured, for less than 25 per cent of its book value and had earned over 50 per cent of its market price the year before. These 4½ per cent Bonds that you see here, bought around $6.00 (now $30.00) had, according to my calculation, assets back of each bond of about twenty times its market price. I want to call your attention now to this advertising company stock, bought around $16.00 a share (currently $25.00), for I was influenced here more by a psychological factor than by my factual estimate of the situation. At that time 'black-outs' were very fresh in the national consciousness, and one of the tune 'hits' of the day was 'When the lights go on again all over the world'. Well I knew that this company, normally an excellent peace-time earner, had dropped over a period of time from $60.00 in 1940 to around $14.00, and the impact on my imagination of a nation

(continued on page 15)

Public's Holdings of General Motors Stocks

AN EXHIBIT of stockholder growth and of the percentage holdings of common and preferred stocks of a representative American corporation are presented in the accompanying chart.

Evidence of *when* the public buys an industrial corporation's shares is indicated by the black columns, reflecting a marked relationship of price to investors' decisions. The column for 1932, for example. That year brought the trough of the Great Depression, when General Motors 5 per cent preferred, then only two years old (holders of the older 7 per cent and 6 per cent preferred issues and the 6 per cent debenture issue having been offered opportunity to exchange them for the 5 per cent preferred), sold down to 56¼ and the common reached a low of 7⅝. The number of common and preferred stockholders in the final quarter of 1932 was nearly 85 per cent larger than in the same 1929 period.



Recent Upturn

Stockholders have been increasing gradually since 1939, the rise being chiefly in the common stock. It could be reasoned that anticipation of post-war enlargement of the company's business in normal peace-time products, including new ones, have figured in purchases in recent years, for the price range of both classes of stock has been higher than during much of the 1930's.

The position of "small holders" on the stock books is emphasized in the chart, although the 37.7 per cent holding 1 to 10 shares each is not an unusually high proportion among large industrial corporations of late years.

The chart is reproduced from the General Motors 1942 annual report to employees, giving intimate details of operations and personnel activities.

It's FACTS Investors Demand!

(continued from page 14)

lighting up again at night—as eventually it must—made me feel that undoubtedly it was an exceptional bargain."

Unfortunately, space does not permit any further recording of my friend's comments upon that occasion. From him, I know I have learned this: it's the simple and direct and common sense interpretation of the facts that counts. If a security is demonstrably substantially under-valued, then, come what may, it will work out profitably in the end. So why gamble?

A Widening Trend

There is little doubt but that the quest for better financial and economic understanding, the urge to seek a scientific approach to the problems of the day—as opposed to the haphazard methods of the past—is a trend that is gaining momentum and that augurs well for the preservation of private capital and enterprise. If the Liberty Loan of War I produced a new army of post-war investors, what must be the sequel to War II when, currently, it is estimated that probably one out of every four persons in the United States owns a Government security? Note also how corporation stockholders have increased since 1929. Recently the New York Stock Exchange presented figures showing that from 1929 to the end of 1942, fifty typical companies listed on the big board showed a stockholder increase of 127 per cent. What an augury for the years to come! What a challenge to our responsibility!

PETROLEUM—An Instrument For Trade Revival After War

(continued from page 4)

not fully offset one another, and since one product cannot be obtained without producing the other, the industry experiences wide fluctuations in inventories of gasoline and fuel oil. Processes permitting greater flexibility in the production of these principal products should tend to lessen future inventory fluctuations, thereby preventing the frequent accumulation of excessive stocks which have often resulted in unsatisfactory prices.

The significance of developments which tend to increase the stability of the refining branch is apparent when it is recalled how often the industry failed to benefit adequately from record petroleum demand because of depressed refined product prices. This is illustrated in the table on page 4, showing the trend of oil company earnings and gasoline consumption for the years 1929-1942.

Trend of Earnings

Despite maintenance of petroleum demand at a high level, earnings of the industry declined in 1942, due primarily to the increased costs of operating under emergency conditions and reduction in sales of gasoline.

Thirty-two leading oil companies, which together account for almost two-thirds of the country's total oil business, showed a 22.9 per cent drop in earnings last year as compared with 1941. However, based on the reports of representative companies which have thus far issued interim statements in 1943, it appears that the downtrend in the industry's earnings is being arrested, although individual companies continue to show wide differences, depending upon the nature and location of their principal activities.

Assumption by the government of a large part of the increase in transportation costs which, during the early part of last year were borne by the industry, and gradual solution of many of the problems imposed by the war, are responsible for the better year-to-year earnings comparisons now being made by most companies.

Price Adjustments

There also have been several indications recently that governmental authorities are becoming increasingly aware of the need for compensating the industry for war-dictated changes in refinery yields by permitting some price adjustments. In view of these trends and the fact that total petroleum demand is expected to show a substantial increase over the next year, it would seem that, barring a material increase in corporate tax rates, the oil industry's earnings for the full year 1943 should compare favorably with 1942.

It now seems certain that because of expanding military and lend-lease requirements, total petroleum demand during the remainder of the war period will be considerably higher than the average of the pre-war years. This brings up the question of the outlook for post-war demand. The end of the war will be accompanied by a sharp drop in military petroleum usage. The extent to which this decline will be immediately offset will depend in part on the number of existing motor vehicles which will be in good operating condition and available for increased use.

Many other of the factors entering into petroleum demand cannot now be estimated with any degree of accuracy because of the uncertain duration of the war. There does not seem to be any reason to expect that the strong upward trend in petroleum consumption, in evidence practically since the birth of the industry in 1859, will be long interrupted.

Large-scale manufacture of new cars, for which there has been accumulating an enormous deferred demand, will get under way as soon as possible. Moreover, the stimulus given to aviation and petroleum chemistry should provide the oil industry with a steadily increasing market for new products.

Another factor which must be taken into account in considering future petroleum demand is the increasing commercial and industrial development of many new sections of the world and the probability of a large increase in foreign demand for petroleum. Although the American oil industry will play an important part in supplying the new and old foreign markets, indications are that they will eventually be increasingly serviced from fields outside the United States where the prospects for the discovery of additional new reserves seem greater than in the more fully explored domestic territory.

Close to High Record

The disruption of the industry's normal transportation facilities and the rubber shortage combined to make it necessary to curb unessential uses of petroleum through product rationing. Nevertheless, total petroleum demand in 1942 approximated the all time high record established in 1941. It is apparent, therefore, that steadily increasing military and industrial requirements about offset the decline which took place in civilian consumption.

That this trend is expected to be accelerated this year was indicated by the recent estimate of the Petroleum Industry War Council that total domestic and export demand for petroleum in the fourth quarter of 1943 will be 4,300,000 barrels daily or 320,000 barrels daily greater than during the corresponding period of 1942.

Synthetic Rubber Becomes Big Business

(continued from page 12)

5. Over the five-year period ending in 1940, natural rubber prices in New York averaged 17.65 cents a pound. However, the records also show that natural rubber has sold in this country as low as *three* cents a pound.

John L. Collyer, President of B. F. Goodrich Company, has urged that the synthetic rubber industry be kept intact and operating on a minimum capacity of 150,000 to 200,000 tons a year. Rubber Director William Jeffers recently advised the people of Texas to see to it that the synthetic rubber plants in their state are not scrapped after the war.

Everyone who has helped build the synthetic rubber industry shares this belief in its importance to the national defense. But there are also many who just as sincerely believe that the industry will be able to stand on its own two feet without the support of government subsidy and protective tariffs. They believe that the skill and ingenuity which built the industry will go on to enable synthetic rubber to compete successfully with natural rubber, to the end that Americans and the world will be guaranteed adequate supplies of quality products at reasonable prices. They believe that the synthetic rubber industry is ready to take its place in the industrial strength of the nation.

MONTHLY STATISTICS—NEW YORK STOCK EXCHANGE

		1943			1942
MONTH END DATA		MAY	APRIL	MARCH	MAY
Shares Listed	(Mil.)	1,470	1,469	1,469	1,469
Share Issues Listed	(No.)	1,234	1,236	1,239	1,242
Par Value of Bonds Listed	(Mil. $)	81,479	72,812	72,856	61,956
Bond Issues Listed	(No.)	1,127	1,129	1,133	1,166
Total Stock and/or Bond Issuers	(No.)	1,196	1,196	1,200	1,214
Market Value of Listed Shares	(Mil. $)	48,438	46,192	45,846	32,914
Market Value of Listed Bonds	(Mil. $)	81,048	71,858	71,575	59,257
Market Value of All Listed Securities	(Mil. $)	129,486	118,050	117,421	92,171
Flat Average Price—All Share Issues	($)	45.07	43.75	43.22	33.84
Shares: Market Value ÷ Shares Listed	($)	32.96	31.45	31.20	22.40
Bonds: Market Value ÷ Par Value	($)	99.47	98.69	98.24	95.64
Stock Price Index (12/31/24=100)	(%)	65.6	62.6	62.1	44.6
Shares in Short Interest*	(Thou.)	980	882	775	534
Member Borrowings on U. S. Gov't Issues*	(Mil. $)	197	362	75	‡
Member Borrowings on Other Collateral*	(Mil. $)	424	365	312	‡
Per cent of Market Value of Listed Shares†	(%)	0.87	0.79	0.68	‡
Member Borrowings—Total*	(Mil. $)	621	727R	387	324
N. Y. S. E. Members' Branch Offices	(No.)	757	750	751	790
Total Non-Member Correspondent Offices	(No.)	2,338	2,352	2,353	2,656
DATA FOR FULL MONTH					
Reported Share Volume	(Thou.)	35,052	33,554	36,997	7,229
Daily Average (Incl. Saturdays)	(Thou.)	1,402	1,342	1,370	289
Daily Average (Excl. Saturdays)	(Thou.)	1,563	1,455	1,482	315
Ratio to Listed Shares	(%)	2.39	2.28	2.52	0.49
Total Share Volume (Incl. Odd Lots)*	(Thou.)		44,673	47,760	9,675
Money Value of Total Share Sales*	(Thou. $)		869,343	860,732	226,102
Reported Bond Volume (Par Value)	(Thou. $)	343,226	372,722	497,869	156,658
Daily Average (Incl. Saturdays)	(Thou. $)	13,729	14,909	18,440	6,266
Daily Average (Excl. Saturdays)	(Thou. $)	15,398	16,264	20,124	6,871
Ratio to Par Value of Listed Bonds	(%)	.445	.512	.683	.256
Total Bond Volume (Par Value)*	(Thou. $)		412,821	554,858	165,276
Money Value of Total Bond Sales	(Thou. $)		197,276	243,869	80,772
N. Y. S. E. Memberships Transferred	(No.)	3	5	4	9
Average Price	($)	48,000	41,000	33,750	18,333

* Items are as of ledgers which normally reflect transactions up to the close of the second full preceding business day.

† Ratios of member borrowings on other collateral to market value of listed shares. This ratio figure is not comparable to the ratios published in the table heretofore. To obtain ratios comparable to those previously published, the total member borrowings should be divided by the market value of all listed shares.

‡ Not available. R=Revsied.

OUR PART...IN THE GREAT AMPHIBIOUS OFFENSIVE!

★ Our part . . . our privilege! Our privilege to share personally in forcing the complete capitulation of Hitler's citadel and Tojo's island chain. Wherever the great offensive is undertaken, it will be our money, lent to Uncle Sam, which will help buy the war planes . . . the tanks . . . the guns . . . the ammunition and landing barges that will speed the tempo and impact. The climax approaches . . . and you may help hasten it!

BUY

UNITED STATES WAR BONDS

For service in subscribing for War Bonds employ the 1,277 offices of member firms of the

NEW YORK STOCK EXCHANGE

★